



K-12 High Speed Network (HSN)

Governor's May Revision

- ☒ The May Revision provides \$15.6 million in expenditure authority for the K-12 HSN.
- ☒ Of the \$15.6 million:
 - \$8.6 million is Proposition 98 General Fund.
 - \$4.0 million is from equipment reserves.
 - \$3.0 million is from cash reserves.
- ☒ Accompanying provisional language states that the \$8.6 million Proposition 98 General Fund "shall be reduced by any funds received from claims for E-rate and/or the California Teleconnect Fund (CTF)."

LAO Recommendation

- ☒ We recommend budgeting E-rate and CTF monies directly and strengthening the accompanying provision language. Based on prior-year data, we recommend the Legislature assume \$4.6 million in E-rate and CTF monies will be available for 2006-07 costs.
- ☒ We recommend taking a conforming action to reduce Proposition 98 General Fund support by a like amount.



K-12 High Speed Network

(Continued)

Budget Bill Language

6110-182-0001, The K-12 High Speed Network, \$4.0 Million Proposition 98 General Fund

1. Expenditure authority of up to \$15.6 million is provided for the K-12 High Speed Network.
2. Of this amount, \$3,000,000 of unexpended cash reserves and \$4,000,000 of unexpended funds set aside for equipment replacement from the following appropriations are available to continue management and operation of the network during 2006-07: Item 6440-001-0001, Schedule (a), Provision 44 of Chapter 52, Statutes of 2000; Item 6440-001-0001, Schedule (1), Provision 24 of Chapter 106, Statutes of 2001; Item 6440-001-0001, Schedule (1), Provision 24 of Chapter 379, Statutes of 2002; Item 6440-001-0001, Schedule (1), Provision 22 of Chapter 157, Statutes of 2003; and Item 6110-182-0001, Chapter 208, Statutes of 2004.
3. Of this amount, \$4.6 million shall be funded by E-rate and California Teleconnect Fund monies. The lead educational agency and/or the Corporation for Education Network Initiatives in California (CENIC) shall submit quarterly reports to the Department of Finance and the Legislature on funds received from E-rate and the California Teleconnect Fund.
4. For 2006-07, all major subcontracts of the K-12 HSN program shall be excluded from both the eligible program costs on which indirect costs are charged and from the calculation of the indirect cost rate based on that year's data. For purposes of this section, a major subcontract is defined as the amount of a contract for services that is in excess of \$25,000.



K-12 High Speed Network

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New Budget Bill Control Section Language

SEC. XX.XX. To expend General Fund, student fee revenue, or any other monies for the California Research and Education Network (CalREN) or the K-12 High Speed Network (HSN), the University of California (UC), California State University (CSU), California Community Colleges (CCC), and California Department of Education (CDE) shall work with the Corporation for Education Network Initiatives in California (CENIC) to ensure that all the following conditions are met: (1) any interest earned on state monies are used to reduce network fees charged to UC, CSU, CCC, and CDE; (2) any assets purchased with state monies are transferred to the state in the event CENIC no longer manages the network; (3) the CENIC governing board approves a service-level agreement that designates specific levels of services to be provided for CalREN and the K-12 HSN in 2006-07; and (4) services are not prepaid unless CENIC can demonstrate that the prepayments result in significant savings.

On or before December 1, 2006, CENIC shall submit a report to the Legislature that verifies the above conditions are being met. At a minimum, the report shall include: (1) the amount of interest earned on state monies in 2005-06 and the resulting reduction in network fees charged to UC, CSU, CCC, and CDE; (2) a financial accounting of all state-funded assets associated with CalREN and K-12 HSN; (3) a copy of the 2006-07 service-level agreement approved by the CENIC governing board; (4) a list of all prepayments made in 2005-06 and in the first quarter of 2006-07 and a detailed explanation of the savings achieved as a result of them; (5) a list of all in-state private institutions and out-of-state institutions using the network and the fee amounts they are charged; (6) detailed statements of all revenues and expenditures for CalREN and the K-12 HSN in 2005-06; and (7) detailed revised 2006-07 budgets for CalREN and the K-12 HSN.